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American Institute of Certified Public Accountants. Management Consulting Services Division

AICPA

CONSULTING SERVICES
PRACTICE AID 94-1

Industry Consulting

Dental Practices

Management Consulting Services Division

AMERICAN

INSTITUTE OF

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ACCOUNTANTS

NOTICE TO READERS

This practice aid is designed as educational and reference material for Institute members and others who provide consulting services as defined in the Statement on Standards for Consulting Services (SSCS) issued by the AICPA. It does not establish standards or preferred practices. However, since the services described in this series of practice aids are consulting services, the standards in the SSCS should be applied to them as appropriate.

The Management Consulting Services Division expresses its appreciation to the author of this practice aid, Barry D. Beck, CPA, PFS. Mr. Beck is a consulting services practitioner in Chelsea, Massachusetts, providing services to dentists, physicians, other related health care professionals, small business owners, and CPAs.

During the preparation of this document, members of the 1992-93 AICPA MCS Technical and Industry Consulting Practices Subcommittee, functioning in an advisory capacity, provided information and comments to the author and division staff.

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PREFACE

This practice aid is one in a series providing practitioners with information about a particular industry, its typical consulting services engagement opportunities, and additional information on the sources of industry and technical engagements. The practice aid's purpose is to assist practitioners in identifying pertinent issues as well as the resources needed for engagements involving a particular industry.

Although these practice aids often deal with aspects of consulting services knowledge in the context of a structured consulting engagement, they are also intended to be useful to practitioners who provide advice on the same subjects in the form of a consultation. Consulting services are defined in the Statement on Standards for Consulting Services (SSCS) issued by the AICPA's Management Consulting Services (MCS) Division.

This series of Industry Consulting Practice Aids should be particularly helpful to practitioners who are considering (a) offering initial or additional consulting services to clients in an industry, (b) offering consulting services to clients who are entering or considering entry into the industry, (c) expanding their practice by marketing services to potential clients in the industry, and (d) undertaking a cooperative engagement by arranging for an industry specialist from outside the firm to assist a client. For readers employed in the industry, Industry Consulting Practice Aids may be useful in providing advice to management.

These practice aids do not purport to include everything that a practitioner needs to know to become expert in providing services to that industry. Current conditions in an industry may vary from those at the time the practice aid was developed.

CONTENTS

83/100 DENTAL PRACTICES

83/105 SCOPE OF THIS PRACTICE AID

.01 The primary purpose of this practice aid is to describe the practices and trends and critical operating issues that the CPA practitioner may address during an engagement for a dental-practice client. The practice aid is not intended to include *all* facts and circumstances that the practitioner may need to consider during an engagement and it does not cover specific consulting matters that are addressed in other Technical Consulting Practice Aids. For example, practitioners will find help in preparing an engagement letter in MAS Practice Administration Aid No. 5, *Communicating With Clients About MAS Engagement Understandings* (New York: AICPA, 1988).

83/110 INDUSTRY PROFILE

.01 This section provides an overview of the dental profession, compares it with related professions, and identifies its standard industry classification code. The overview presents some historical information about dental practices and describes current trends, the impact of technology, capital requirements, and competition.

Definition of the Industry

.02 **Services**. Dentists diagnose and provide restorative and preventive treatment of gum, teeth, and jaw diseases. Originally, dentists performed mostly restorative care, including drilling and filling cavities, and pulling and replacing teeth. Modern technology, such as fluoridation of drinking water, has shifted the emphasis in dental practices from restorative to preventive and cosmetic procedures.

.03 **Requirements**. A dentist is required to have a baccalaureate degree and to complete four years of dental school. Dental schools offer either a doctor of dental science (DDS) or doctor of dental medicine (DMD). From a practical standpoint, these degrees are interchangeable and comparable.

.04 The development of a dental specialty requires additional formal education and training. Continuing dental education is required in most states.

Geographic Differences

.05 The nature of a dental practice varies with its location's population density, economic conditions, and local customs. In a large urban area, a dental practice usually has a higher patient volume and more specializations. In a rural or suburban area, a dental practice tends to be a general practice. The majority of practices are located in suburban or rural areas.

State Regulation and Licensing

.06 The dental profession is regulated by each state. Laws vary regarding continuing dental education, corporate form, ethics, advertising, employment of hygienists and technicians, and care for the indigent.

Specialization

.07 The American Dental Association (ADA) recognizes several dental specialties. The most common specialties are orthodontics, pediatric dentistry, endodontics, prosthodontics, oral surgery, and periodontics. The glossary provides descriptions of these and other specialties. To be recognized as a specialist, a dentist may be required to participate in an internship program, attend continuing education courses, and limit his or her practice to the specialty area.

.08 The number of dental specialists continues to grow because of the specialized techniques used to address patient problems; however, the general practitioner is the primary care provider.

Related Professions

.09 Dentists often work with medical doctors, such as orthopedic surgeons, general surgeons, and plastic surgeons, in the treatment of injuries or congenital defects. Speech therapists, internists, and dental laboratory technicians are other specialists with whom dentists may interact.

Standard Industrial Classification Code

.10 The Standard Industrial Classification (SIC) code for dentists is 3021. The SIC system categorizes industries by type of economic activity. Its purposes are to facilitate the collection, tabulation, presentation, and analysis of data relating to dental practices, and to promote uniformity and comparability in the presentation of statistical data describing the economy. The SIC system is used by agencies of the United States Government that collect or publish data about particular industries. It is also widely used by state agencies, trade associations, private businesses, and other organizations including publishers of industry reference books, such as Robert Morris Associates and Dun & Bradstreet.

Historical Background

.11 The form of business a dental practice takes, as well as the services it offers, has been influenced by the growth of dental specialties and the increased use of insurance, the number of malpractice claims, overhead costs, and competition.

.12 In urban areas, some dentists are forming group practices. The expensive equipment required for diagnosis and treatment services, as well as management systems, can be used more cost effectively if shared. Advertising and other aggressive business programs are also often more cost effective if shared by a group. Despite the trend toward group practice, the independent general practice remains by far the most common form of practice.

.13 An alternative to independent practice is employment by the federal, state, or local government, a hospital, a clinic, a health maintenance organization (HMO), a union, a corporation, or another dentist. One of these alternatives is frequently chosen by a new dentist who may not have the resources to begin a new practice, or by a dentist who does not want to be an entrepreneur.

Industry Trends

.14 A small but growing number of group dental practices are distinguished by high patient volume, and despite large advertising and promotional expenditures, compete primarily on price and availability of emergency care.

.15 Another emerging group of practitioners emphasize patient convenience and preventive care and are often located in shopping malls, maintaining the same office hours as retail stores.

.16 The traditional practices stress quality care provided by the same dentist with the objective of building and maintaining a core clientele.

Impact of Technology

.17 The use of automation in dental practices has increased in recent years, largely because of the amount of data processing involved in insurance claims, billing and collections, and records retention. A wide variety of software applications are available to provide the degree of sophistication desired. The CPA practitioner needs to be aware of the problems that may be inherent in obsolete hardware or operating systems that are part of turnkey packages.

.18 The following applications are most frequently used in dental practices:

.19 **Billing**. Billing software should include programs for billing private patients and third party payers and for gathering statistics. To cope with numerous insurance filings, some dentists are beginning to employ third party claims processors.

.20 **Scheduling and recall**. Dentists are paid on a per procedure basis. Therefore, patient flow directly affects the practice's income. Efficient scheduling should allow time for emergencies and practice administration. A recall program automatically schedules patients for their next appointment.

.21 **Accounting and word processing**. In general, the computer software needs for word processing and accounting are similar to those for other professional practices. CPA practitioners will find guidance on selecting and implementing these systems in MAS Technical Consulting Practice Aid No. 11, *Conversion to a Microcomputer-Based Accounting System* (New York: AICPA, 1989).

.22 **Practice development**. Patient relations can be enhanced by the automated mailing of birthday cards and newsletters. In addition, valuable demographic information from patient files can be stored in a database. These data can be used to determine the practice's existing market and to identify other areas to target.

Capital Requirements

.23 The capital requirements of a dental practice have increased in recent years because of the expanded use of technology, the increased cost of dental insurance billings, and the costs of practice development. Capital requirements also vary according to whether the dentist wishes to start up a practice, purchase or buy into an established practice, or expand a practice.

.24 **Capital for start-up practices**. The capital requirements associated with start-ups include the costs of acquiring equipment and furniture and leasehold improvements and the working capital needed until cash flow is developed. CPAs can help clients who are starting, purchasing, or expanding their dental practices by assisting in the preparation of financial projections for use in obtaining financing.

.25 *Equipment and furniture*. Equipment includes treatment chairs, plumbing, and hardware for each treatment room, x-ray machines and devices for protection from radiation exposure, drawer systems, copy machines, the telephone system, computer hardware and software, and waiting room and office furniture.

.26 *Capital for financing operations*. As in many start-up ventures, it generally takes at least six months to generate revenue in excess of costs. A new practice may encounter delays in collecting third-party claims and self-pay receivables. Because of inexperience, personnel may fail to provide adequate information to third party payers. A new dentist, fearing to offend patients, may also find it difficult to educate them in payment and collection policies. Consequently, payment may be delayed. Regardless of the reason, the result is the same: Cash flow is delayed. In general, three to four months of working capital should be included in the financial projections of initial cash requirements including living expenses.

.27 **Capital for established practices**. The capital needed to buy outright or into a practice may be greater than the capital needed to start a practice. A seller expects to be compensated for

the value of an ongoing business. Consequently, a practice may sell for multiples of one year's collected fees or net income.

.28 Dentists who admit a new partner or shareholder may offer liberal financing terms. Assisting dentists in the valuation of a practice for purchase or sale is a service that can be provided by the CPA practitioner and is therefore discussed further in paragraphs 83/130.14 through 83/130.18.

.29 **Capital for practice expansion.** Capital needed to expand the dental practice includes many of the costs incurred when starting the practice, plus additional personnel costs for dentists, hygienists, technicians, receptionists, and bookkeepers.

Industry Characteristics

.30 Dentists often require substantial support from their financial and management advisers. However, resistance to incurring consulting fees may often inhibit new dentists from engaging a practitioner to provide services. The CPA can often overcome this resistance by explaining how the costs of consulting services are justified by the resolution of problems.

.31 Stress levels run high in dentistry as a result of physical demands as well as patients' fear of pain. Dentists work in small areas using exacting skill that strains patience and endurance. The high stress levels may explain why the dental profession has a high incidence of suicide.

Business Cycles

.32 The need for dental services is rather uniform throughout the year. Periodic checkups and teeth cleaning are scheduled at the patient's convenience. In some practices, patient flow may be influenced by local custom, which may dictate the timing of vacations or holidays.

.33 During periods of recession, the dental profession may experience a slowdown in patient volume attributable to the deferral of discretionary services. Collections may be lowered by slow-paying private patients.

Competition

.34 Competition for patients has been heightened by the increase in the number of dentists. Consumer education in preventive maintenance has also caused less demand for dental services. Large dental clinics, with multiple locations, approach dentistry as a business and with a strong profit motive. Because high volume is vital, these practices have aggressive practice development plans. Development and monitoring of these plans can be provided by the CPA consultant.

83/115 TYPICAL ACTIVITIES

Staffing

.01 A dental practice usually has a minimum of two people: a dentist and a front desk person. In addition, a dental hygienist or technician may be employed. Practices may employ hygienists, technicians, a bookkeeper, and a billing clerk, depending on the volume of patients. Billing clerks are particularly needed in practices with many patients who are covered by insurance or belong to HMOs.

.02 In today's dental practice, a dental hygienist performs routine services, thereby allowing the dentist to concentrate on procedures that are high dollar rather than high volume. A dental hygienist is required to have two to four years of college depending on state licensing laws. The hygienist generally works independently of the dentist in cleaning, x-raying, and routinely examining teeth. His or her schedule may not be coordinated with the dentist's schedule depending on state requirements. Billing for services may be separate. The hygienist may be hired at either a base annual salary or an hourly rate with bonuses based on the number of patients seen.

.03 Hygienists play an integral role in the growth and success of the dental practice. Competent hygienists are a source of increased revenues because they can bring a patient's potential problems to the dentist's attention early.

.04 A hygienist often spends more time than the dentist with the patient. Usually, the hygienst takes from thirty to sixty minutes to clean and scale the patient's teeth and gums while the dentist takes about five minutes for a routine examination. As a result, a personable hygienist has a better opportunity than the dentist to establish a rapport with the patient.

.05 The dental technician assists in caring for patients by working under the direct supervision of the dentist. Technicians may have completed a certificate program or may have on-the-job training. The technician cannot perform billable procedures. The technician's responsibilities generally include assisting the dentist, maintaining equipment, and ordering dental supplies.

.06 Duties of the front desk staff include appointment and recall scheduling, patient registration, and billing. In smaller offices, the receptionist may also be the dental technician. Interpersonal skills are important in this position. Skills in computer use, bookkeeping, and organization, along with common sense, are needed to handle recall and scheduling and billing.

Practice Management

.07 The dentist usually takes an active role in the management of the practice. In a solo practice, the dentist's family may provide administrative or clinical services.

.08 Practice management varies with the size of the practice. Management responsibilities may be shared more so than is usual in business in general. In larger practices, there may be an office manager or administrator.

.09 The major concerns for the practice manager are patient flow, recall and scheduling, personnel, billing, bookkeeping, and cost control. Increased use of dental insurance requires that staff be educated in reimbursement compliance. Consultants can provide invaluable assistance in this area. Engagements involving analysis of third party contracts and patient receivables are discussed further in section 83/130, "Typical MCS Engagements."

.10 Keys to financial success are a full appointment book, high patient flow, and efficient use of the dentist's and hygienist's time. Well-managed recall and scheduling systems are vital in achieving this success.

.11 A manually operated recall system is only as effective as the employee who is responsible for carrying out the recall activities. Computer automated recall systems have improved reliability by lessening the dependence on people. A manual system may begin when the patient completes the appointment. The receptionist settles the account for the current care and schedules the next visit. The patient addresses a postcard to himself or herself and is given an appointment card for the next visit. The receptionist or another employee completes the recall postcard and prepares a recall telephone card. Before the scheduled visit, the postcard is mailed and a telephone call is made to remind the patient. An effective recall system may include the hygienist's participation in scheduling return visits.

.12 Efficient scheduling anticipates the hours the dentist and hygienist plan to work, the time required for the procedures and administrative needs, as well as emergency care requests. The time necessary for emergency care is based upon the experience of the practice and the availability of the support staff.

Laboratory and Supply Management

.13 In most dental practices, activities involving interactions with dental laboratories and suppliers and the control of dental supplies account for much of personnel's time.

.14 Depending on the nature of the practice, dental laboratory fees represent a significant expense (for example, crown and bridge work or implants promote higher lab costs). A dental practice often establishes a relationship with a dental laboratory for the preparation of dental appliances. The dentist prepares a mold of a patient's mouth, which the laboratory uses to prepare a crown, bridge, nightguard, or retainer. The dentist then installs the appliance and instructs the patient in its use and care. The patient has no contact with the dental laboratory. The laboratory bills the dentist. This cost is usually included in the dentist's fee.

.15 Dental supplies include gauze, cotton, mercury, silver, and gold, and are a significant investment that requires adequate safekeeping and control. These supplies often are obtained from a single dental supply house. Mail order suppliers may offer savings in cost with, usually, little difference in quality and service. Dentists must be careful to recognize any difference or decline

in the quality of the materials. Implementing inventory controls is a possible engagement opportunity and is discussed in more detail in other Consulting Services Practice Aids.[1]

.16 The sales of used precious metals need to be separately accounted for and reported as income. In addition, state sales tax laws may not exclude dental supplies from taxation. The CPA familiar with the provisions of state sales tax law that affects the dental profession can assist clients in establishing reporting mechanisms.

.17 Most practices purchase supplies and laboratory services on credit. Dental suppliers frequently have promotions and offer incentives to new practices and large practices to establish a continuing relationship. In dealing with laboratories, the dentist's primary concerns are the quality and timeliness of services.

.18 Most dental laboratories are privately owned. Dentists who have an ownership interest in a dental laboratory need to take special care when invoicing third-party payers, particularly Medicare and Medicaid. In regulations issued in July 1991, the Department of Health and Human Services described eleven safe harbors, which are legal arrangements between investors and providers of service or supplies. Although these regulations apply primarily to physicians, hospitals, and medical suppliers, any provider whose services are covered under Medicare are subject to them. The fraud and abuse regulations pertaining to Medicare change rapidly and are often far-reaching.

.19 Conflict-of-interest and overutilization rules limit the use of dental laboratories in which dentists have an interest. Medicare considers it illegal for dentists to refer patients to an entity in which they have a financial interest. In general, laboratories are considered to be in compliance with the law if they provide services to many dentists and their ownership criteria do not include a requirement that the dentist-owners use their services.

Practice Development

.20 **Developing a plan.** Increased competition for patients has made the creation of a development or marketing plan critical to the success of the practice. The marketing plan will depend on the nature of the practice, the stage of the practice's business development cycle (for example, start-up, adolescence, maturity, or approaching retirement), and the money needed to fund the marketing efforts. The marketing plan may be prepared by the dentist, the administrator, or a consultant.

.21 The objectives of a dental practice development plan may be to increase patient referrals, to improve recalls, to retain patients, and to increase the number of specialized procedures.

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[1] Although its focus is on providing consulting services to clients who are manufacturers, MAS Small Business Consulting Practice Aid No. 4, *Effective Inventory Management for Small Manufacturing Clients* (New York: AICPA, 1985) provides guidance that will be helpful to practitioners in assisting dental practice clients in developing and implementing inventory controls. In addition, a significant portion of the MCS Division software, *Diagnostic Review Checklists for Maximizing Client Profits* (New York: AICPA, 1993), contains diagnostic questions about inventory management.

Regardless of the objectives, the goals should be measurable and stated in measurable terms (for example, increase patient referrals by 25 percent).

.22 **Implementing the plan.** Once the marketing plan is developed, its implementation usually becomes the dentist's responsibility. Typical marketing and promotional media are similar to those used by any other small business. Dentists generally use the yellow pages and community newspapers as primary advertising sources. If advertising, direct mail, telemarketing, newsletters, and radio and television appearances are part of the marketing plan, implementation may be delegated to outside specialists. In addition, the ADA and other dental societies offer services and products to assist in marketing.

.23 Along with promoting the dental practice through public visibility, the marketing program could include efforts to foster patient satisfaction. For example, training is offered to help dentists overcome the resistance of patients who fear the costs and pain of dental treatment.

.24 **Assessing the success of the plan.** The implementation procedures need to include the establishment of a system for gathering data to measure the marketing plan's success. Cost-benefit, return-on-investment, or other analyses need to be made periodically. Timely reporting and measurement of the plan's objectives are desirable. One simple method of reporting and measuring results might be to maintain a log of new patients indicating the referral source, such as other patients, other dentists, staff, yellow pages, or radio and television advertising. The initial fee should be recorded and, periodically, the data can be summarized to evaluate the effectiveness of the marketing plan. A patient survey is also an excellent method of evaluating the results of marketing efforts such as advertising.

83/120 AREAS OF BUSINESS RISK

.01 The areas of business risk in a dental practice are associated with capital requirements, malpractice liability, and employee health.

Capital Requirements

.02 Equipment and supplies require a substantial initial investment whether they are required for a startup, a purchased practice, or a practice undergoing expansion. The amount of this investment has continually increased over the years because of technological advances as well as inflation. The cost of a modest professional office may easily exceed $75,000. In addition, patients' comfort is receiving increased consideration. Consequently, capital may be needed to provide sound and television systems and to enhance the interior decor. Furthermore, capital requirements for operations have increased because of a greater reliance on staff and on expanded promotional efforts.

Sources of Capital

.03 In recent years, more dentists have borrowed money to finance their dental education. Consequently, when they seek financing for a new practice, the costs of opening an office may need to include the costs of their educational loan repayment.

.04 In the past, traditional sources of capital have considered dental professionals to be excellent risks. Historically, banks have provided capital to new dentists with repayment terms of five years or more, sometimes delaying principal payments for up to a year. Other sources of capital for starting a practice are personal savings and family loans.

.05 Equipment manufacturers and leasing companies offer alternatives to bank financing. Under a lease, considerably less initial investment may be needed, the payout may be longer, and a personal guarantee by the dentist may not be required. However, the cost of leasing equipment is generally higher than that of bank financing. Accordingly, buy-versus-lease analysis is an engagement opportunity available to the CPA.

Malpractice Liability

.06 The dental profession, like other professions, has been subject to increases in the number and amounts of malpractice claims. In turn, this has increased the cost of professional liability insurance. Furthermore, the dentist may also be liable for the actions of the staff.

.07 Formation of their practices into professional corporations does not usually protect dentists from malpractice claims, but can protect them personally from the malpractice of employees or other stockholders. The corporation could be liable for employees' acts but the dentists would be personally liable only for their own malpractice. As with most professional service industries, aggressive accounts receivable may increase the risk of malpractice claims.

.08 The consultant may wish to recommend professional liability insurance to all dental clients regardless of state regulations. Policies are written on either an occurrence basis or a claims-made basis. With an occurrence policy, the carrier assumes perpetual liability for any alleged negligence that might occur while the policy is in force. Under the claims-made policy, the carrier assumes liability only if a claim is filed before the policy termination date. When selling or retiring from practice with claims-made policies, the dentist should obtain a tail policy that will cover any claims arising after the effective date of the tail policy.

.09 Professional liability insurance can be obtained from commercial insurance agents, through the ADA or, if available, through a state-sponsored insurance plan. Generally, the only requirement for professional liability insurance coverage is a current dental license.

Employee Health Risks

.10 Dental professionals and their patients are vulnerable to communicable diseases. In recent years, the HIV virus, which causes AIDS, has become a major concern of and risk for health care professionals, as well as their patients, and has significantly affected the liability of dentists and their staffs. Treatment of AIDS patients is required under most ethical and legal guidelines but these vary from state to state. To reduce the risk of exposure, most dental practitioners now routinely wear one or even two pairs of gloves and use a face splash guard when treating all patients and may use a hospital room when treating a known AIDS patient. Specialized sterilization equipment may have a significant effect on the cost of providing dental services.

.11 Dental professionals are also exposed to chemicals and x-ray emissions. This exposure increases the importance of adequate insurance and strict operational and control procedures. The practitioner should be familiar with legislation regarding infection control and the disposal of hazardous waste. Furthermore, the Occupational Safety and Health Administration (OSHA) has become increasingly concerned with dental practices and can be expected to favor additional legislation.

83/125 PERFORMANCE MEASURES

.01 A *Dental Economics* survey indicates that operating expenses of dental practices range from 60 to 70 percent of collected fees depending on specialty, location, management style, and business structure. Management information systems should provide adequate data to compare and control these costs. Most dental practices use the cash basis of accounting. The key operating indicators are the ratios for accounts receivable, aging, and collection and the trends in charge and payment activity. Some periodicals that are devoted to practice management publish annual surveys of comparative financial information (see appendix 83/A). During recent years, the rate of increase for overhead expenses exceeds that for gross receipts and this trend will probably continue. As a result, dental practices need more frequent budget reports to enable them to take rapid action on variances.

Revenues

.02 Revenue information can be used to determine trends and to compare industry statistics for practices of similar size, specialty, and location. Useful revenue information includes —

- A fee schedule, which lists fees for each procedure performed.
- Fee per patient, tracked daily, weekly, or monthly to discern trends.
- Number of patients treated per day for each dentist and hygienist.
- Number of new patients per month. The source of new patients and the fees earned from them should also be measured.

- Revenue per chairside hour for each professional.
- Total current billings for each professional.
- Revenues lost as a result of patients being unable to schedule appointments during the next two months because the book is too full.
- Adjustments and writeoffs.

Costs and Expenses

.03 Expenses should be accumulated for comparison with past performance as well as with industry standards for practices of similar size, specialty, and geographic area. Useful expense information includes the following:

- Salary or contract service costs per revenue dollar
- Cost per patient
- Cost per chairside hour
- Expenses as a percentage of revenue

.04 Costs are defined as the total overhead expenses before dentist's compensation. Cost information can be used for setting compensation for the dentist and staff. *Dental Economics* publishes the results of an annual survey of such information as annual lab expenses, drug and operatory expenses, laundry and cleaning costs, and phone and utilities expenses.

Operating Statistics

.05 Information that may be helpful in developing and managing a practice includes the sources of new patients and the reasons for patient losses. In addition, the practice can benefit from monitoring the time patients must wait after their scheduled appointment time until they are treated. Failure to meet at the scheduled appointment time increases patients' frustration and dissatisfaction even when dental treatment is otherwise satisfactory. Periodically (for example, the tenth working day of each month), the length of time patients are delayed should be recorded. This may be difficult, but the benefits from reducing waiting time will be significant. Patients generally will feel satisfied with dental services and will be more likely to return for treatments.

.06 Keeping statistics on the least profitable procedures can also be beneficial. Certain procedures are less profitable than others because of time and skill requirements, third-party reimbursement policies, or other factors. The least profitable procedures based on revenue and cost per hour should be identified. Periodically (for example, the third week of each month), the revenues earned for each kind of procedure should be compared with its cost per chairside hour. When the least profitable procedures are identified, the practice manager can attempt to make

them profitable by reducing costs, adjusting charges, or, if practical, referring the work to other dental specialists.

.07 The efficiency of the recall system should be monitored. Periodically (for example, the second week of each month), the number of patients who receive appointment reminders and the number who keep their appointment should be reviewed.

.08 The efficiency of collections can be evaluated by reviewing accounts receivable aging information.

83/130 TYPICAL MCS ENGAGEMENTS

.01 Practitioners can provide a variety of services to dental practice clients. The usual objectives, tasks, and output of several typical engagements are described in the following pages. To assist the practitioner in gaining an understanding of the dental practice and its operations, a "Checklist of Background Information for an Engagement With a Dental Practice" is provided in exhibit 83B-1 in appendix 83/B.

Management Review

.02 **Background.** The management review involves an assessment of dental office procedures, internal controls, and other practice management areas to ensure that they work efficiently. The review includes procedures that enable the consulting practitioner to obtain a thorough understanding of the dental practice and identify deficiencies in practice operations. To address billing and collection issues, the consulting practitioner will need a basic understanding of third party reimbursement.

.03 **Objective.** The objective of the practice management review is to provide recommendations that will improve profitability by increasing efficiency.

.04 **Tasks.** Interviews with key personnel are essential to identify issues of concern and to understand existing procedures. The practitioner also surveys administrative systems to identify potential problems such as poor receivable and cash controls or inefficient and redundant activities. The administrative systems to be surveyed include accounting, billing and collections, internal control, financial management reporting, and recall and scheduling. The practitioner should also review fee histories, personnel policies including fringe benefits, and agreements with third parties. A sample "Checklist for a Dental Practice Management Review" is provided in exhibit 83B-2 of appendix 83/B.

.05 After identifying the procedures, the practitioner analyzes them to determine if they are performed in a manner to achieve desired results. Some of the tests include the following:

- Tracing deposits from patient accounts to day sheets
- Tracing deposits from day sheets to bank deposits

- Reviewing of control procedures for accounts receivable and adjustments

- Reviewing the explanation of benefits (EOB) from insurance carriers for—
  - Unusually high frequency of rejected claims
  - Fees paid in full (a possible indication that charges for procedures are low)
  - Date of service compared with date of payment to determine delays in the submission of claims
  - Discrepancies in fees for the same procedures

- Comparing date of deposit on day sheet to actual date of receipt

Many of the tests performed will be the same as those for any industry. However, the review of insurance processing and remittance advice is peculiar to dental and other health care professions.

.06 Output. The output of the practice management review is usually a written report that describes deficiencies in operations and makes specific recommendations to remedy the problems. For example, as a result of tracing deposits and interviewing personnel, the practitioner may determine a lag in the actual deposit date of seven to ten days and recommend that office staff make deposits daily and provide information to the CPA to review monthly. The practitioner may also report that insurance payments are being received, on average, seventy-five days after the date of service. Depending on the practice collection policy, this would indicate a problem in processing insurance claims. In general, insurance claims should be answered to within thirty to forty-five days at the most. Therefore, the practitioner may recommend that dental practice management take steps to ensure a more timely response. Exhibit 83B-3 of appendix 83/B provides a sample management review engagement report. The written report usually includes a summary of the financial impact of eliminating inefficiencies. For example, the practitioner might write the following in a report to a client:

> Each month, the practice provides $50,000 of procedures. Fees for these procedures are not collected at the point of service. Instead, the policy is to submit insurance claims, but not to accept assignment of the fees from the insurer. The gross collection rate is 75 percent. By increasing the rate to 80 percent, the practice can gain an additional $2,500 monthly, or $30,000 annually, without an increase in expenses.
>
> Or:
>
> Cash flow may be enhanced by the use of a factoring service on either a recourse or nonrecourse basis.

.07 Potential problems. The practitioner may encounter problems in a management review of a practice in which there are family or other personal relationships. In addition, if personnel do not act upon or arbitrarily change the practitioner's recommendations, the desired results will not occur. Therefore, it is important to provide for implementation and follow-up of the recommendations. This is best done in subsequent engagements.

Accounting System Design

.08 Background. The need for accounting system design may arise when a new practice is started or when an established practice's existing systems become inadequate. A practice of any size may reach a stage when its existing systems can no longer handle the volume of transactions, process data in a timely manner, or provide adequate operational reports. CPA practitioners can assist dental clients in selecting accounting software and upgrading computer hardware.

.09 The methods of processing information for a dental practice are determined by the size of the practice and the nature of the billing and payment policies. Automated systems in the dental office greatly facilitate maintaining the information necessary to prepare and follow-up insurance claims.

.10 Objectives. The objectives of an engagement involving accounting system design are to improve patient flow and the time management of the dental professionals and to provide billing, collections, and performance measurements that are timely and accurate. Data that enable comparison of fees per chairside hour, percentage of costs to revenue before dentist's income, and other statistics can help in evaluating management policies.

.11 Benefits. The output of an engagement involving accounting system design is the installation and implementation of an appropriate system. The system will help the dental practice to improve collections and increase cash flow. In addition, the increased reliability of the recall system will be evidenced by a full schedule.

.12 Potential problems. A practitioner involved in accounting system design may encounter several problems. Conversion from a manual system or an obsolete automated system to a new system in itself presents the challenge of managing a smooth transition without interrupting operations or impairing data integrity. Another challenge is to design a system that has the ability to process insurance claims automatically in the required format. The practitioner may also encounter a problem in including a system for reporting and monitoring practice development plans.

.13 Several potential problems are associated with the practice's ownership or personnel. The CPA practitioner will need to educate the dentist on the value and use of the information that the system will provide. The practitioner may also have problems with staff who lack bookkeeping skills as well as those who resist or are intimidated by automation. To ensure that the system will be used effectively, the practitioner will need to supervise or provide staff training in computer operations and control procedures and in the use of manuals and output.

Practice Valuation

.14 **Background**. The sale of a dental practice is more common than in the past. In addition, the CPA is often asked to assist in valuing the practice for the admission or withdrawal of a partner or for a divorce settlement.

.15 **Objective**. The engagement objective is to determine the fair market value of the dental practice.

.16 **Tasks**. Valuation of a dental practice should be undertaken only by practitioners with significant experience with professional practice valuations because of the potential for litigation. The CPA must consider several different elements depending on the type, location, and other characteristics of the practice. The following elements are some that may need to be considered:

a. The market value of trade fixtures, equipment, and leasehold improvements

b. Net current assets less liabilities

c. Goodwill

d. Intangibles, such as going-concern value, noncompete agreements, and records of active patients

e. The transferability of the practice

f. Patient characteristics, such as average age

g. Area demographics

h. Lease terms

i. Practice specialties, if any

j. Continuing contracts for services such as orthodontics or with HMOs

k. Contracts with associates

l. Compensation agreements with the owner

m. Legal documents concerning current, pending, or threatened litigation

n. The cooperation of a seller in transferring the practice by providing the use of name, letters of introduction, patient records, staff, phone number, and so forth

.17 **Output**. The practice valuation engagement provides the client with an independently determined suggested value. The output of the engagement will be a written valuation report. Additional information on business valuations is available in Small Business Consulting Services

Practice Aid No. 93-3, *Conducting a Valuation of a Closely Held Business* (New York: AICPA, 1993).

.18 Other outputs of the practice valuation may be letters or oral advice about the tax effects, the risks involved, or the evaluation of purchase offers.

Practice Development

.19 **Background**. Preparing a marketing or practice development plan for a dental office may be similar to preparing one for an accounting practice. The practice development plan is a written expression of the dentist's goals and the methods to be used in achieving them. The dentist must decide what type of practice is desired, whether it will be a general practice or specialty, a solo, or group practice; whether to accept third-party reimbursement; and what competitive market is comfortable.

.20 **Objective**. The objective of the plan is to provide guidance in the practice development methods that are most cost effective and likely to achieve growth. Growth may be achieved by the installation of an effective recall program, by providing additional services to existing patients, or by attracting new patients. New patients may be attracted by advertising campaigns on television and radio or in the print media, by public relations campaigns, press releases, speaking and writing engagements, a direct mail or telemarketing campaign, or a word-of-mouth referral campaign aimed at patients, or in the case of a specialty practice, at other dentists.

.21 **Tasks**. In developing the marketing plan, the practitioner can survey patients to determine their perceptions of various aspects of the practice. Demographic information is usually available from local dental societies, business journals, marketing firms, and the local chamber of commerce.

.22 To gain an understanding of the services currently being provided and those that need to be added, the practitioner can interview the dentist and other office personnel. Accordingly, the practitioner also needs to review the practice's financial information to determine the feasibility of adding new services or eliminating nonrevenue generating activities and to calculate the costs of various services in relation to revenues.

.23 **Benefits**. A practice development engagement may provide a dentist with the benefits of increased gross fees, net income, and revenue per chairside hour, reduced expenses, and information to support specialization decisions.

.24 The output of a practice development engagement is a marketing plan that may include the use of advertising, public relations, telemarketing, direct mail, or a referral program, recommendations to install or improve a computer system, or the outline of an effective recall program. The outline may also include a procedural guide and sample forms for the recall system and a method to measure the system's efficiency.

.25 Depending on the marketing plan, assistance in implementing it may be needed from a firm specializing in advertising, public relations, direct mail, or telemarketing.

.26 **Potential problems**. In developing a practice growth plan, the practitioner must take into account the budget available to implement the plan and the nature and degree of the dentist's and staff's participation in the implementation.

Billing and Collections Review

.27 **Background**. The billing and collection procedures in a dental practice are unusual in that the person to whom the professional provides the service is not always responsible for payment or negotiation of fees. Furthermore, third-party payers can influence a practice by reimbursing only certain professional procedures, limiting the frequency with which these services can be performed, and setting the fee to be reimbursed. Overly aggressive collections increase the risk of malpractice claims.

.28 **Objective**. The objective of a review of billing and collection procedures is to develop or revise policies and procedures to maximize revenues based on the current level of services provided by the practice.

.29 **Tasks**. In conducting a review of a dental practice's billings and collections system, the practitioner may wish to use questionnaires to identify existing procedures for the following system elements:

- Collection and payment
- Patient registration
- Validation of insurance coverage
- Precertification of procedures to be performed
- Determination of the form and content of the claim
- Claims follow-up
- Bad debt write-offs
- Contractual write-offs
- Participation agreements

.30 A CPA may also assist in establishing or improving the communication and the paperwork flow with third-party payers. To do this, the CPA needs to understand the billing and claims processing and third-party reimbursement guidelines. Exhibits 83B-4 and 83B-5 in appendix 83/B provide illustrative dental service and billing statement forms.

.31 The CPA may need to contact third-party payers who represent a high percentage of collections in order to verify the following procedures:

a. Processing claims, including the form required and the procedures of patient signature on file, assignment of claim, copays, and so forth

b. Establishing or adjusting fee schedules

c. Negotiating fees

.32 Third-party payers may be classified as Medicare, Medicaid, managed care organizations such as HMOs and preferred provider organizations (PPOs), and other commercial carriers. Medicare benefits include coverage for a limited number of dental services such as procedures that have a related diagnosis of temporomandibular joint (TMJ) fractures and lesions and the removal of teeth prior to radiation therapy.

.33 As of September 1, 1990, all providers of services or supplies to Medicare beneficiaries are required to submit claims on behalf of their patients using the Health Care Finance Administration (HCFA) 1500 claim form. Reimbursement for these services is subject to the payment system established by HCFA. The CPA practitioner can obtain information about this payment system by contacting the public relations director of the local Medicare carrier. The CPA as a consultant is eligible to receive a provider's manual and monthly carrier newsletters and updates as they are published. In addition, the *Federal Register* reports federal regulations affecting health care professionals.

.34 The type of practice will determine the influence of Medicare regulations. Office procedures for billing and collections will vary according to the volume of Medicare, managed care, or commercial insurance participation. In general, managed care organizations take the form of HMOs and PPOs.

.35 An HMO is a system of providing health care by combining delivery of services with financing. Individuals subscribe to the HMO through their employer or union or individually by paying a flat fee and receive unlimited care on demand. An HMO differs from the more traditional insurance program by encouraging members to obtain preventive care. A dentist can contract with the HMO to be paid at a negotiated rate per procedure or a fixed capitation fee per member per month whether or not the patient is seen. The amount paid a dentist by an HMO for a procedure is usually less than the dentist receives for the same procedure from a non-HMO patient. The dentist offers HMO patients a discount in consideration of the volume of procedures they will require as well as the assurance of collection. The HMO provides the dentist with a new source of patient revenue.

.36 Another provider organization is the individual practice association (IPA). An IPA is a group of dentists who provide services to patients enrolled in an HMO or another form of a prepaid health care plan. The plan reimburses the IPA, which usually pays its dentists on a fee-for-service basis. The dentist shares the responsibility for the total cost of care by agreeing to have some portion of each fee withheld and put into a common risk pool, to be divided among

all the participating dentists if the IPA has a financially successful year. IPA dentists work in their own offices, where they service both plan members and fee-for-service patients.

.37 A PPO is an organization that provides marketing, advertising, and referral services to its professional members. A PPO is one of several alternatives a dentist has of contracting out services required for practice development. In anticipation of increased patient flow, the fees for services provided to PPO-referred patients may be discounted 15 percent to 20 percent of the customary and reasonable charge. The code of ethics of the ADA does not permit a dual fee schedule. However, *de facto* dual fee schedules may develop when the unpaid portion of the PPO charges are written off with little or no effort to collect the difference from the patient. This practice provides an incentive to patients to use preferred providers. Unlike the HMO, the PPO has no requirement that patients use specific dentists.

.38 In addition to HMO and PPO arrangements, dentists may negotiate contracts with unions or employers. A union may negotiate with its members' employers to provide a dental program. Under such a plan, the employer makes a monthly contribution to the union for dental benefits. The union then contracts with dentists for dental care. In other respects, union plans are similar to HMOs.

.39 Corporate dental programs are similar to union plans. However, a corporation may establish a self-insurance fund. Employees can arrange with their private dentists for treatment, and the dentists submit claims to the patients' employer. Dentists usually receive their ordinary and customary fee. As with most prepaid dental programs, special procedures require a second opinion or administration approval before care can begin.

.40 **Benefits**. A billing and collection engagement may provide improved cash flow and more efficient billing and accounts receivable administration.

.41 **Output**. The output of a billing and collection review is usually a written report that clearly identifies the scope and objectives of the review and makes specific recommendations. The output may also include an office procedure manual. However, development of a procedure manual and implementation of recommendations may be additional engagements that follow on the billing and collection review as well as the practice management review.

.42 **Potential problems**. A billing and collection review is a labor intensive engagement. To maintain profitability, the CPA firm must set specific goals and base its planning of the engagement on a thorough understanding of the nature of the practice. It is important to focus the report on those goals.

83/135 OTHER ENGAGEMENT OPPORTUNITIES

.01 Other opportunities exist for CPA practitioners to provide management consulting support to dentists. In many instances, engagements will encompass several disciplines and issues. For example, dentists may require assistance in the following areas:

- Retirement planning
- Staff development and training
- Development of personnel policies manual
- Feasibility studies
- Equipment acquisition or lease
- Software evaluation
- Strategic planning
- Operational budgeting
- Organizational structure
- Insurance evaluation
- Buy-sell arrangements
- Compensation plan development
- Banking relationships
- Business transition planning
- Owner disability or death contingency business planning
- Insurance review

APPENDIX 83/A

SOURCES OF ADDITIONAL INFORMATION

Associations

Academy of General Dentistry (AGD)
211 E. Chicago Avenue, Suite 1200
Chicago, IL 60611
(312) 440-4300

American Association for Dental Research (AADR)
1111 14th Street N.W. Suite 100
Washington, DC 20005
(202) 898-1050

American Association of Entrepreneurial Dentists
420 Magazine St.
Tupelo, MS 38801
(601) 842-1036

American College of Dentists (ACD)
839-J Quince Orchard Blvd.
Gaithersberg, MD 20878
(301) 977-3223

American Dental Association (ADA)
211 East Chicago Avenue
Chicago, IL 60611
(312) 440-2500

Other Organizations

Mayer Hoffman McCann, CPAs
420 Nichols Road
Kansas City, MO 64112
(816) 968-2055
(Publishes health care consulting materials)

Practice Development Institute
401 North Michigan Avenue
Chicago, IL 60611-4240
(800) 227-0498

Sources of Statistical and Other Information

American Dental Association

Dental Economics (See Publications below)

Dun & Bradstreet

Financial Research Associates
P.O. Box 7708
Winter Haven, FL 33883

Robert Morris Associates
1616 PNB Building
Philadelphia, PA 19107

Publications

CPA Health Niche Advisor
CPA Services
16800 W. Greenfield Ave.
Brookfield, WI 53005-9970

Dental Care Marketing
Professional Communications, Inc.
5799 Tall Oaks Road
Madison, WI 53711

Dental Computer Newsletter
Audent Inc.
1000 North Avenue
Waukegan, IL 60085

Dental Economics
PennWell Publishers
1421 S. Sheridan Street
P.O. Box 3408
Tulsa, OK 74101

Dentistry Today
26 Park Street
Montclair, NJ 07042

Guide to Physicians and Other Health Care Professionals
Practitioners Publishing Company
Box 966
Fort Worth, TX 76101

Journal of Dental Practice Administration
J.B. Lippincott Co.
E. Washington Square
Philadelphia, PA 19105

Proofs: The Magazine of Dental Sales & Marketing
PennWell Publishers
1421 S. Sheridan Street, P.O. Box 3408
Tulsa, OK 74101

APPENDIX 83/B

ILLUSTRATIVE MATERIALS

Exhibit 83B-1

Checklist of Background Information for an Engagement with a Dental Practice

Client_____
Engagement Date_____
Client's Legal Name_____
Address_____
_____
Phone_____
Federal I.D. No._____ State I.D. No._____

1. Identify the form of business entity_____
   _____
   _____

2. Obtain entity documents:

	Yes	*No*	*Not Applicable*
Articles of Incorporation	_____	_____	_____
Partnership agreements	_____	_____	_____
Prior tax returns (at least three years)			
Last year	_____	_____	_____
First prior year	_____	_____	_____
Second prior year	_____	_____	_____

3. Obtain agreements covering:

a. Sale purchase of business	_____	_____	_____
b. Operation of business during owner's disability	_____	_____	_____
c. Operation of business after owner's death	_____	_____	_____

	Yes	*No*	*Not Applicable*
4. Conduct business insurance review:			
a. Business overhead	_____	_____	_____
b. Disability insurance	_____	_____	_____
c. Key man life	_____	_____	_____
d. Buy/sell/cross purchase policies	_____	_____	_____
5. Obtain employee organizational chart	_____	_____	_____

6. Describe key employee job responsibilities

Key employee 1:_____

Key employee 2:_____

Key employee 3:_____

Key employee 4:_____

Key employee 5:_____

7. Obtain understanding of written fee agreements with third party payers.

   Third party payer 1:_____

   Third party payer 2:_____

   Third party payer 3:_____

   Third party payer 4:_____

8. Describe the following characteristics of the dental practice:

   a. Practice demographics:_____

   b. Patient demographics:_____

   c. Practice specialty:_____

d. Distribution of dentists by specialty with geographic area:_____

9. Describe any working relationships with area dentists:

a. Referral arrangements:_____

b. Emergency coverage agreements:_____

10. Do any covenants-not-compete exist with:

a. Dentists within practice:_____

b. Other dentists outside of practice:_____

11. Identify the client's attorney:

Name:_____
Address:_____
Phone:_____

12. Identify the client's prior CPA firm:

Name:_____
Address:_____
Phone:_____

13. Identify the client's insurance agents:

Name:_____
Address:_____
Phone:_____

Name:_____
Address:_____
Phone:_____

14. Identify the client's other business consultants:

Name:_____
Address:_____
Phone:_____

Name:_____
Address:_____
Phone:_____

15. Describe any actual/potential claims (occurring within the last ten years) regarding:

a. Malpractice:_____

b. Worker's Compensation:_____

c. Tort/contract breech/civil/criminal claims:_____

16. Obtain any audit/practice review (within the last five years) from:

	Yes	*No*	*Not Applicable*
a. Taxing authority	_____	_____	_____
b. Governmental regulatory authority (OSHA, Wage/hour, bureau, etc.)	_____	_____	_____
c. Third party payer	_____	_____	_____

17. Describe:

    a. Employee morale:_____

    b. Employee turnover:_____

18. Describe how the practice owner and staff communicate/maintain/improve understanding of changes in:

    a. Tax law:_____

    b. Quality control:_____

    c. Governmental regulations (such as OSHA, Medicare, Medicaid, etc.):_____

19. Obtain an understanding of practice problems from owners and employees:

    Owner 1:_____

    Owner 2:_____

Owner 3:

Owner 4:

Employee 1:

Employee 2:

Employee 3:

Employee 4:

Employee 5:

Employee 6:

20. Describe the practice's goals and objectives:_____

_____

_____

_____

_____

21. Obtain copies of the following documents for each business owner:

	Yes	*No*	*Not Applicable*
a. Will(s)—husband and wife	_____	_____	_____
b. Trust(s)	_____	_____	_____
c. Prior years tax returns and related correspondence with various taxing authorities	_____	_____	_____

22. Obtain schedule of cash receipts and production/billings by month (and year-to-date) for a minimum of three years for:

a. Each dentist	_____	_____	_____
b. Each hygienist	_____	_____	_____
c. Total practice	_____	_____	_____

23. Obtain monthly/quarterly financial statements for a minimum of five years.

Year 1	_____	_____	_____
Year 2	_____	_____	_____
Year 3	_____	_____	_____
Year 4	_____	_____	_____
Year 5	_____	_____	_____

Exhibit 83B-2

Checklist for a Dental Practice Management Review

Name of Practice_____
Date_____
Performed by_____

	Yes	*No*	*Comments*
1. Is the following management information available:			
a. Production per dentist?	_____	_____	_____
b. Production per hygienist?	_____	_____	_____
c. Monthly and year-to-date procedure count and dollar volume by provider?	_____	_____	_____
d. Amounts disallowed or discounted based on contractual agreements?	_____	_____	_____
e. Number of accounts and amounts written off as bad debts?	_____	_____	_____
f. Number of accounts turned over to collection?	_____	_____	_____
g. Breakdown of payments by payer and provider?	_____	_____	_____
h. New patient volume by current month, year-to-date, and prior year by provider?	_____	_____	_____
i. Total patient volume for current month, year-to-date, and prior year by provider?	_____	_____	_____
2. Does the dentist review management reports and financial statements?	_____	_____	_____
3. Are routine business meetings held with all dentists?	_____	_____	_____

		Yes	*No*	*Comments*
4.	Are accounts receivable aged and reviewed? How often? By whom?	_____	_____	_____ _____
5.	Does the practice have an office manager?	_____	_____	_____
6.	Does the dentist or office manager project revenues and expenses?	_____	_____	_____
7.	Are goals established and reviewed?	_____	_____	_____
8.	Are annual meetings held with outside advisors?	_____	_____	_____
9.	Are the duties of all staff outlined in a personnel policy and procedure manual?	_____	_____	_____

Exhibit 83B-3

Sample Report for a Management Review Engagement

CPA & Company
Anytown, USA

January xx, 19xy

Hal Thomas, DDS
1 Main St.
Anytown, USA

Dear Dr. Thomas:

The following is a report of our management review of your practice.

Problem: High Labor Cost

The review and subsequent meetings we had beginning in December revealed that your labor cost is too high. Surveys indicate that the labor cost should not exceed 20.43 percent of revenues. The December 31, 19xx financial statement we completed shows that your labor percentage is 30.1 percent. After an adjustment to the labor cost is made for wages paid to your family and cleaning help, your labor cost is still 27 percent. Based on your current expenses, you need to generate $318,130 in revenues to support a labor percentage of 20.43 percent.

Remedies

1. Freeze salaries for 19xx. If production for the first six months approaches one half of $318,130, or $159,065, everyone could receive a bonus equal to 3 percent of his or her 19xx salary. The cost will be $1,715, and the increase in production will be 25 percent. If production for the second six months continues to meet the goal of $318,130, the bonus could be awarded again.

2. Increase production and collections. A goal for the hygienist to reach regarding the STM program needs to be set. This goal could begin at four new patients a month. If the hygienist reaches this goal for four consecutive months, an incentive program may need to be developed.

The hygienist should be more aggressive when identifying the needs of the patient during a cleaning. Host work is initiated with the hygienist; therefore, she is the crucial link in generating more production.

If a second hygienist is absolutely necessary, the time she spends at your office needs to be productive. I would like to see you initiate a percentage compensation package for your second hygienist, perhaps 35 percent of her production and 10 percent of the work she initiates. This is important because your second hygienist contributes heavily to your high labor cost and this method of compensation would motivate her.

If you allow one or more employees to verify patient appointments, most broken appointments and the associated lost charges would be eliminated.

We recommend implementation of consistent billing and collection procedures. In the past, your practice has sent statements at irregular intervals. Statements should consistently be mailed once a month to eliminate the chance of patients not being billed.

Insurance claims should be tracked through the use of an insurance log. Maintaining an insurance log or a tickler file is a means of control for filing and follow-up of outstanding third party payer claims.

Currently, procedures for recording and balancing daysheets do not include completing the accounts receivable proof. Beginning in January, the front desk staff will begin balancing this proof. This will give us an accounts receivable total to use as a balancing measure with ledger cards, as well as a daily total of outstanding billings.

General Considerations

Minutes need to be taken at all employee meetings. Each meeting can begin with a review of the prior meeting's minutes as follow up on agreed-upon suggestions and goals.

Financial statements should provide comparative data for the current and prior years.

The morale of the office depends largely on you. If you maintain a positive attitude, it will foster positive attitudes in your employees. While at the office, be aware of your impact on employees and try to be positive. You will be amazed at how far positive encouragement will go in keeping your employees satisfied and content.

Currently, you do not have an employee handbook. It is important to have a handbook that sets forth office procedures and job descriptions. I am currently working on this and will have a draft for you by the first of March.

We appreciate the opportunity to perform this management review for your practice. We have presented several issues that have an impact on your practice through this report and through communication with you and your staff throughout this engagement.

This review has been limited to those areas discussed in the engagement letter and this report. It was not within the scope of the engagement to review or evaluate all claims-filing procedures, and, therefore, we are not liable for actual claims filing procedures or output.

If you should have any questions or wish to discuss any of these items further, we would be happy to do so.

Sincerely,

John Doe, CPA

Exhibit 83B-4

Sample Dentist's Pretreatment Estimate and Statement of Actual Services

TO BE COMPLETED BY EMPLOYEE

1. PATIENT NAME

2. RELATIONSHIP TO EMPLOYEE: SELF | SPOUSE | CHILD | OTHER

3. SEX: M | F

4. PATIENT BIRTHDATE: MO. | DAY | YEAR

5. IF FULL TIME STUDENT: SCHOOL | CITY

6. EMPLOYEE NAME: FIRST | MIDDLE | LAST

EMPLOYEE'S BIRTHDATE: MO | DAY | YEAR

7. EMPLOYEE SOCIAL SECURITY NO.

8. MARITAL STATUS: ☐ Single ☐ Divorced ☐ Married ☐ Separated

SPOUSE'S BIRTHDATE: MO | DAY | YEAR

9. HOME ADDRESS

CITY, STATE | ZIP

10. EMPLOYER (COMPANY) NAME AND ADDRESS

10a STATUS: ☐ Active ☐ COBRA ☐ Retired

11. GROUP NUMBER

12. BRANCH

13. ARE OTHER FAMILY MEMBERS EMPLOYED? NO ☐ YES ☐
EMPLOYEE NAME | SOC. SEC. NO.

14. NAME AND ADDRESS OF EMPLOYER IN ITEM 13.

15. IS PATIENT COVERED BY ANOTHER DENTAL PLAN? NO ☐ YES ☐ If yes, please give:
DENTAL PLAN NAME | NAME AND ADDRESS OF CARRIER

15a IF PATIENT IS A DEPENDENT CHILD, ARE THE LEGAL PARENTS DIVORCED OR SEPARATED FROM EACH OTHER? NO ☐ YES ☐

15b I HAVE REVIEWED THE FOLLOWING TREATMENT PLAN. I AUTHORIZE RELEASE OF ANY INFORMATION RELATING TO THIS CLAIM.

SIGNED (PATIENT, OR PARENT IF MINOR) ____________ DATE ____________

15c. I HEREBY CERTIFY THAT THE ABOVE INFORMATION IS CORRECT.

EMPLOYEE SIGNATURE ____________ DATE ____________

TO BE COMPLETED BY DENTIST

16. DENTIST NAME: FIRST | MIDDLE | LAST

17. MAILING ADDRESS

CITY, STATE | ZIP

18. DENTIST SOC. SEC. OR T.I.N.

19. DENTIST LICENSE NO.

20. DENTIST PHONE NO.

21. FIRST VISIT DATE CURRENT SERIES

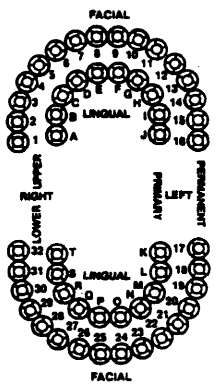
22. PLACE OF TREATMENT: OFFICE | HOSP. | ECF | OTHER

23. RADIOGRAPHS OR MODELS ENCLOSED? NO | YES | HOW MANY?

	NO	YES	IF YES, ENTER BRIEF DESCRIPTION AND DATES
24. IS TREATMENT RESULT OF OCCUPATIONAL ILLNESS OR INJURY?			
25. IS TREATMENT RESULT OF AUTO ACCIDENT?			
26. OTHER ACCIDENT?			
27. ARE ANY SERVICES COVERED BY ANOTHER PLAN?			
28. IF PROSTHESIS, CROWN OR INLAY, IS THIS INITIAL PLACEMENT?			(IF NO, REASON FOR REPLACEMENT) — 29. DATE OF PRIOR PLACEMENT
30. IS TREATMENT FOR ORTHODONTICS?			IF SERVICES ALREADY COMMENCED, ENTER: DATE APPLIANCES PLACED — MOS. TREATMENT REMAINING

DENTIST - CHECK ONE
☐ PRETREATMENT ESTIMATE
☐ STATEMENT OF ACTUAL SERVICES

IDENTIFY MISSING TEETH WITH "X"



32. REMARKS FOR UNUSUAL SERVICES

31. EXAMINATION AND TREATMENT PLAN - LIST IN ORDER FROM TOOTH NO. 1 THROUGH TOOTH NO. 32 USE CHARTING SYSTEM SHOWN

Tooth No. or Ltr.	Surface	DESCRIPTION OF SERVICES (Including X-Rays, Prophylaxis, Materials Used, etc.)	Date Service Performed Mo.	Day	Yr	Procedure Number	FEE	ADMINISTRATIVE USE ONLY

TOTAL FEE CHARGED

TO BE COMPLETED BY DENTIST

I HEREBY CERTIFY THAT THE PROCEDURES AS INDICATED BY DATE HAVE BEEN COMPLETED AND THAT THE FEES SUBMITTED ARE THE ACTUAL FEES I HAVE CHARGED *THIS PATIENT* AND INTEND TO ACCEPT FOR THESE PROCEDURES

DENTIST'S SIGNATURE: ____________ DATE: ____________

DIRECTION TO PAY BENEFITS TO DENTIST

I HEREBY DIRECT BENEFITS PAYABLE TO THE ATTENDING DENTIST

EMPLOYEE'S SIGNATURE: ____________ DATE: ____________

Administrative Use Only

Patient's Eligible Date
Mo.________Day______Yr.________

Patient's Effective Date
Mo.________Day______Yr.________

Patient's Termination Date
Mo.________Day______Yr.________

Verified by____________

Date Verified Mo.______Day______Yr.______

IMPORTANT — to insure the proper processing of this claim, please check the accuracy of the following:
Employee Questions — 1 through 15c
Dentist Questions —16 through 32, dates of services, & procedure numbers
If initial prosthesis, list date(s) of extraction(s) for teeth being replaced.

Batch # ____________

Sample Dentist's Statement Form

Date | Patient's Name | Billing Name | Billing Address

Insurance Name | Contract No.

DENTIST'S STATEMENT OF ACTUAL SERVICES

☑	tooth No.	Surface	ADA Code	Procedure	Charge	☑	tooth No.	Surface	ADA Code	Procedure	Charge
☐			00110	Initial Oral Exam		☐			02110	Amal., Pedo, 1 Surf.	
☐			00120	Periodic Oral Exam		☐			02120	Amal., Pedo, 2 Surf.	
☐			00130	Emer. Oral Exam		☐			02130	Amal., Pedo, 3 Surf.	
☐			00210	Comp., Series X-Ray		☐			02140	Amalgam, 1 Surf.	
☐			00220	Single X-Ray		☐			02150	Amalgam, 2 Surf.	
☐			00230	Each Addl. Film		☐			02160	Amalgam, 3 Surf.	
☐			00272	2 Bitewing X-Rays		☐			02190	Pin Retention	
☐			00274	4 Bitewing X-Rays		☐			02210	Silicone	
☐			00470	Diagnostic Costs		☐			02330	Composite, 1 Surf.	
☐			01110	Prophylaxis, Adult		☐			02331	Composite, 2 Surf.	
☐			01120	Prophylaxis, Child		☐			02520	Gold Inlay, 2 Surf.	
☐			01220	Topical Flouride		☐			02790	Gold Crown	
☐			01330	Oral Hygiene Inst.		☐			02830	Stainless Steel Cr.	
☐			01510	Space Maintainer		☐			02940	Sedative Filling	
☐			03310	RCT. Single Canal		☐			06210	C & B Gold Pontic	
☐			03320	RCT. Two Canals		☐			06540	C & B Gold Onlay	
☐			03330	RCT. Three Canals		☐			06790	C & B Gold Crown	
☐			04331	Occ. Adjustment		☐			05110	Comp. Upper Dent.	
☐			04340	Perlo. Scaling		☐			05120	Comp. Lower Dent.	
☐			07110	Extraction		☐			05211	Upper Partial Dent.	
☐			07120	Addl. Extraction		☐			06120	Lower Partial Dent.	
☐			00110	Emer. Treatment		☐			05610	Denture Repair	
Other						Other					

I Hereby Certify That The Procedures As Indicated By Date Have Been Completed.

Signed (Dentist) | Date

Old Balance ..... $

Today's Charge ..... $

TOTAL ..... $

Payment Received ..... $

New Balance ..... $

1. ASSIGNMENT OF BENEFITS

I certify that the services listed have been received and I authorize payment be made to myself and the provider named.

Signed

2. AUTHORIZATION TO RELEASE INFORMATION

I authorize the release of any dental information necessary to process this claim.

Signed

JOB RELATED ILLNESS OR INJURY ☐ Yes ☐ No

NEXT APPOINTMENT AT AM PM

Exhibit 83B-6

Sample Chart of Accounts for a Multidentist Corporation

Drs. Kent and Lewis, a Dental Corporation

Assets

0100 Petty Cash
0101 Checking—ABC Bank
0102 Savings—ABC Bank
0103 Money Market—New World
0105 Returned Checks
0110 Prepaid Insurance
0120 Furniture and Equipment
0125 Accumulated Depreciation
0150 Investments—Stocks

Liabilities

0201 FICA Tax Payable
0202 Federal Withholding Tax Payable
0203 State Withholding Tax Payable
0204 Notes Payable—ABC Bank

Stockholders' Equity

0301 Common Stock
0350 Retained Earnings

Income

0401 Professional Fees Collected
0402 Refunds
0410 Dividend Income
0415 Interest Income
0420 Other Income

Expenses

0501 Automobile
0504 Collection
0505 Credit Card Fees
0506 Contributions
0510 Depreciation
0512 Dues and Subscriptions
0515 Insurance—Practice
0516 Insurance—Employee Benefits
0517 Insurance—Physician's Life and Disability
0520 Interest
0521 Lab and X-Ray
0522 Laundry and Linen
0523 Legal and Accounting
0525 Maintenance and Repairs
0526 Medical Supplies
0528 Miscellaneous
0531 Office Supplies
0533 Practice Promotion
0534 Professional Development
0535 Publications
0536 Rent
0537 Salaries—Office
0538 Officers Salaries
0554 Taxes—Income
0555 Taxes—Payroll
0556 Taxes—Other
0560 Telephone
0561 Travel
0562 Uniforms

Exhibit 83B-7

Sample Partnership Chart of Accounts

Drs. Kent and Lewis, a Dental Partnership

Assets

0100 Petty Cash
0101 Checking—ABC Bank
0102 Savings—ABC Bank
0103 Money Market—New World
0105 Returned Checks
0110 Prepaid Insurance
0120 Furniture and Equipment
0125 Accumulated Depreciation
0150 Investments—Stocks

Liabilities

0201 FICA Tax Payable
0202 Federal Withholding Tax Payable
0203 State Withholding Tax Payable
0204 Notes Payable—ABC Bank

Partners Capital

0301 Dr. John Kent Capital
0302 Dr. John Kent Drawing
0311 Dr. Joseph Lewis Capital
0312 Dr. Joseph Lewis Drawing

Income

0401 Professional Fees Collected
0402 Refunds
0410 Dividend Income
0415 Interest Income
0420 Other Income

Expenses

0501 Automobile
0503 Credit Card Fees
0504 Collection
0506 Contributions
0510 Depreciation
0512 Dues and Subscriptions
0515 Insurance—Practice
0516 Insurance—Employee Benefits
0517 Insurance—Physician's Life and Disability
0520 Interest
0521 Lab and X-Ray
0522 Laundry and Linen
0523 Legal and Accounting
0525 Maintenance and Repairs
0526 Medical Supplies
0528 Miscellaneous
0531 Office Supplies
0533 Practice Promotion
0534 Professional Development
0535 Publications
0536 Rent
0537 Salaries—Office
0555 Taxes—Payroll
0556 Taxes—Other
0560 Telephone
0561 Travel
0562 Uniforms

Exhibit 83B-8

Sample Sole Practitioner Chart of Accounts

John Kent, DDS

Assets

0100 Petty Cash
0101 Checking—ABC Bank
0102 Savings—ABC Bank
0103 Money Market—New World
0105 Returned Checks
0110 Prepaid Insurance
0120 Furniture and Equipment
0125 Accumulated Depreciation
0150 Investments—Stocks

Liabilities

0201 FICA Tax Payable
0202 Federal Withholding Tax Payable
0203 State Withholding Tax Payable
0204 Notes Payable—ABC Bank

Capital

0301 Dr. John Kent Capital
0302 Dr. John Kent Drawing

Income

0401 Professional Fees Collected
0402 Refunds
0410 Dividend Income
0415 Interest Income
0420 Other Income

Expenses

0501 Automobile
0504 Collection
0505 Credit Card Fees
0506 Contributions
0510 Depreciation
0512 Dues and Subscriptions
0515 Insurance—Practice
0516 Insurance—Employee Benefits
0517 Insurance—Physician's Life and Disability
0520 Interest
0521 Lab and X-Ray
0522 Laundry and Linen
0523 Legal and Accounting
0525 Maintenance and Repairs
0526 Medical Supplies
0528 Miscellaneous
0531 Office Supplies
0533 Practice Promotion
0534 Professional Development
0535 Publications
0536 Rent
0537 Salaries—Office
0555 Taxes—Payroll
0556 Taxes—Other
0560 Telephone
0561 Travel
0562 Uniforms

GLOSSARY

allowable charge The maximum dollar amount that will be reimbursed for each dental procedure.

alternate benefit A provision in a dental contract that allows the third-party payer to determine the charge based on another professionally acceptable procedure.

assignment of benefits A procedure whereby an insured person authorizes the administrator of the program to forward payment to the treating dentist.

assistants Individuals who provide services to patients by assisting the dentist. The assistant and dentist work in tandem on the patient's mouth. In some offices, the assistant provides support in open areas of practice operations.

attending dentist's statement The insurance claim form developed by the American Dental Association.

balance billing A process of billing a patient for the difference between the actual charge and the amount received from a dental benefit program.

benefit (1) The amount payable by a third party toward the cost of various covered dental services, (2) the dental service or procedure covered by the plan.

capitation An alternative approach to the fee-for-service method of compensation. The contracting dentist is paid on a periodic fixed rate per capita for treating the comprehensive needs of the patient. The dentist is compensated whether or not services are provided. The contracting dentist assumes the financial risk, since the payment received by the dentist may not be sufficient to cover the cost of the treatments needed.

closed panel A dental benefit plan under which eligible patients can receive service only at specified facilities by a limited number of participating dentists. If the services are provided in a group practice facility, it is more precisely termed *prepaid group practice*.

contract dentist organization (CDO) An organization is one that enters into an agreement with a purchaser of group benefits to provide services in a manner that is less expensive than a traditional treatment delivery arrangement. In return, the purchaser agrees to publicize this agreement to the group members. Also known as a **preferred provider organization (PPO)**.

contract fee schedule plan A dental benefit plan in which participating dentists agree to accept a list of specific fees as the payment in full for dental treatment provided.

copayment A provision of a dental benefit program by which the beneficiary shares in the cost of covered services by paying either a percentage or a specified amount. A typical coinsurance arrangement is one in which the third party pays 80 percent of the allowed benefit, and the patient pays the remainder of the charged fee.

covered charges Charges for services rendered or supplies furnished by a dentist that qualify as covered services and are paid for by the dental benefit program.

customary fee The fee determined by the dental plan administrator as the maximum benefit payable. It is based on the actually submitted fees for a specific dental procedure. (See also **usual fee** and **reasonable fee**.)

extension of benefits An extension of eligibility for benefits designed to ensure completion of treatment started before the expiration date. It is generally expressed in days.

health maintenance organization (HMO) (1) *Traditional* — A legal entity that has met the requirements of the HMO Act of 1973 by providing basic and supplemental health services to an enrolled population in exchange for prenegotiated and fixed periodic payments. (2) *Current* — An organized system of health care delivery that provides comprehensive care to enrollees through designated providers. Enrollees are generally assessed a monthly payment for health care services and may be required to remain in the program for a specified length of time.

hygienist An individual with a two- or four-year college education who is certified and licensed by the state to provide teeth cleaning services and, in some states, limited preventive services.

individual practice association (IPA) A legal entity organized and operated on behalf of participating dentists for the primary purpose of collectively entering into contracts to provide dental services to enrolled populations. Dentists practice in their own offices and may provide care to patients not covered by the contract as well as to IPA patients.

maximum benefit The maximum amount a program will pay toward the cost of dental care incurred in a specified period, usually a calendar year.

maximum fee schedule A compensation arrangement in which a participating dentist agrees to accept a prescribed sum as the payment in full for one or more covered services.

nonduplication of benefits A dental benefit contract provision relieving the third-party payer of liability for the cost of services covered under another program. It is distinct from a coordination of benefits provision because it limits reimbursement to the greater of the amounts allowed by the two plans, rather than a total of 100 percent of the charges.

nonparticipating dentist Any dentist who does not have a contractual agreement with a dental benefit organization to render dental care to members. Also known as a **nonpar dentist**.

open panel A dental benefit plan characterized by three features: (1) Any licensed dentist may elect to participate; (2) the beneficiary may receive dental treatment from any licensed dentists, with the benefits being payable to either the beneficiary or the dentist; and (3) the dentist may accept or refuse any beneficiary.

participating dentist Any dentist who has a contractual agreement with a dental benefit organization to render care to eligible persons.

preauthorization A statement by a third-party payer indicating that a proposed treatment is covered under the terms of the dental benefit contract. (See also **predetermination**.)

predetermination An administrative procedure in which a dentist submits a treatment plan to the third party before treatment is begun. The third party returns the treatment plan indicating the available benefits.

preferred provider organization (PPO) See **contract dentist organization**.

prevailing fee A term used by some dental benefits organizations to refer to the fee most commonly charged for a dental service in a given area.

reasonable and customary (R&C) plan A dental benefit plan that determines benefits based only on reasonable and customary fee criteria. (See **customary fee, reasonable fee.**)

reasonable fee The fee charged by a dentist for a specific dental procedure that has been modified by the nature and severity of the condition being treated or by any medical or dental complication or unusual circumstances. Because of the extraordinary conditions, the fee may differ from the dentist's usual fee or the benefit administrator's fee.

retail store dentistry A term referring to dental services offered within a retail department or drug store operation. Typically, space is leased from the store by a separate administrative group that, in turn, subleases to a dentist or dental group providing the actual dental services. The dental operation generally maintains the same hours of operation as the store, and often, appointments are not necessary.

specialists The following are the types of dental specialists:

- **endodontist** Treats conditions resulting from diseases of or injury to the pulp of the teeth (for example, provides root canal treatment).

- **implantologist** Performs the permanent implantation of false teeth into the mouth and jaw bone. Implantology is not yet recognized by the ADA as a specialty.

- **oral and maxillofacial surgeon** Surgically corrects diseases, injuries, and defects of the mouth and jaws. In some states, a maxillofacial procedure must be performed by a medical doctor.

- **oral pathologist** Diagnoses and treats abnormalities by examining oral tissues using clinical, radiographic, microscopic, or other laboratory procedures.

- **orthodontist** Treats malocclusion (nonalignment) of teeth and designs corrective and supportive appliances such as braces.

- **pediatric dentist** Provides dental care to children from birth through adolescence and to patients with mental, physical, or emotional problems.

- **periodontist** Diagnoses and treats gum disease, which affects the tissues supporting and surrounding the teeth.

- **prosthodontist** Constructs artificial appliances to replace missing teeth and other oral structures.

- **public health dentist** Serves the dental health needs of communities and aids in the design and administration of large-scale prevention and dental care programs. Public health dentists work with local and state health departments to improve oral health, identify care resources, teach in dental schools and other educational settings, and conduct research on preventive measures. They may be involved with implementing community fluoridation programs.

subscriber The person, usually the employee, who may represent the family unit in the dental benefit program. This term is most often used by service corporation plans. Also known as *certificate holder*, or *enrollee*.

technician An individual who provides services to the dentist by assisting in the laboratory. This individual actually prepares or assists in the making of artificial dental appliances, including mouthguards, crowns, bridges, and so forth. In some locations, the technician may need to be certified or licensed. This requirement is regulated state by state.

third party The party to a dental benefit contract that may collect premiums, assume financial risk, pay claims, and provide other administrative services. Also known as administrative agent, carrier, insurer, or underwriter.

usual, customary, and reasonable (UCR) plan A dental benefit plan that determines benefits based on usual, customary, and reasonable fee criteria.

usual fee The fee that an individual dentist most frequently charges for a given dental service.

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Thank you for your assistance.

---

1. How familiar were you with this subject before you read this practice aid?

0	1	2	3	4	5
Unfamiliar		Somewhat familiar		My area of expertise	

2. How useful is the practice aid to your practice?

0	1	2	3	4	5
Not useful at all				Extremely useful	

3. Is there additional information that you think should have been included or information that should be modified in this practice aid? Yes _____ No _____

If yes, please explain _____

_____

_____

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